

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Leadership and Fiscal Responsibility

“We must take the fiscally responsible actions necessary to keep our state’s economy strong during the tough times, so we can continue to prosper in the good times”

Governor Bob Holden

OVERCOMING THE STATE’S BUDGET CHALLENGES

When Governor Holden took office one year ago, the state was beginning to face the largest fiscal challenge in many years. These challenges continue in Fiscal Year 2003, requiring budget cuts not seen in decades. Governor Holden faced these challenges immediately. His first task after taking office was to put Missouri’s fiscal house in order. The Governor has again met this challenge and presents a balanced Fiscal Year 2003 budget. Although constraints have been placed on the budget and there is little room for funding new ideas, the Governor is committed to helping the state and its citizens recover and grow in the 21st Century.

Understanding the Budget Challenges

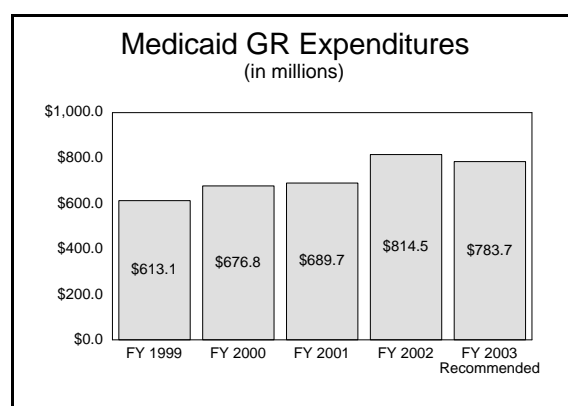
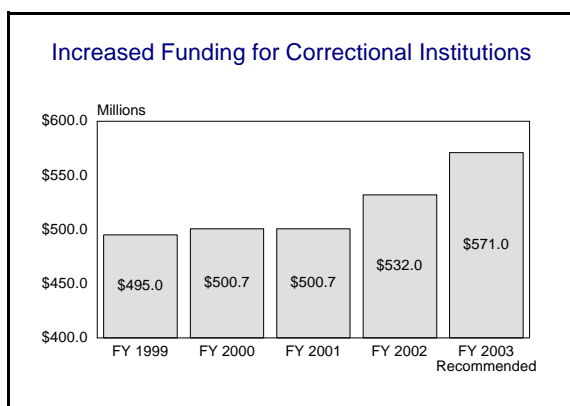
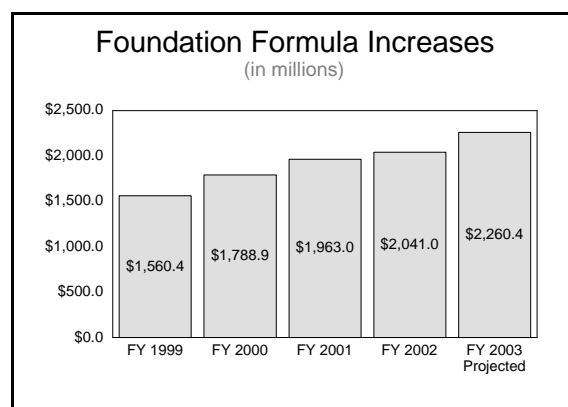
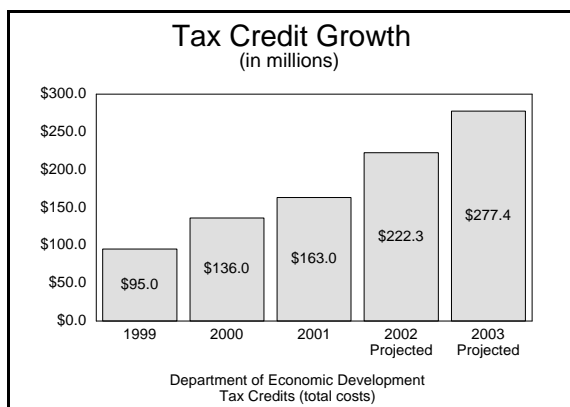
The economy officially went into recession in March 2001. During the summer of 2001, all major national forecasters envisioned an economy that would begin growing again during the last half of calendar year 2001 with substantial growth during calendar year 2002. However, the terrorist attacks of September 11 have delayed economic recovery and made it likely that such recovery will be slower and weaker than hoped.

As demonstrated by the graphs on the following page, the increasingly tight budget is due to a combination of factors, including:

- Substantial increases in costs in areas such as Medicaid and Corrections.
- Escalating costs of tax credits passed in recent years.
- Rising costs to fund the state’s public education Foundation Formula.
- Stagnant rates of growth of revenues coming into the state.

Leadership in Tough Economic Times

Just before Governor Holden took office one year ago, he learned that he was faced with a budget that had to be cut. The continued recession and the economy’s reaction to the terrorist attacks have forced Missouri, and most other states, to reduce spending to ensure a balanced budget.



During Fiscal Year 2001, in his first six months of office, Governor Holden:

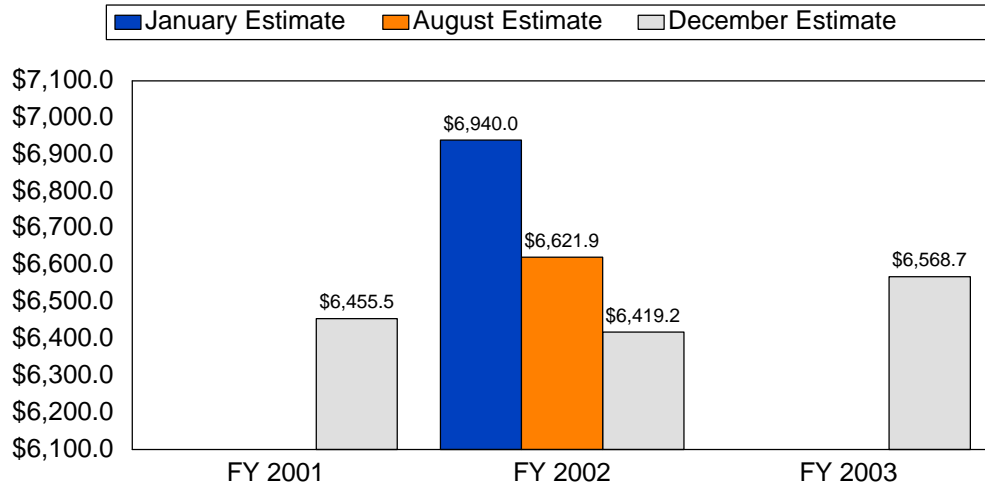
- Withheld \$76 million in state agency operating budget spending.
- Redirected \$126.9 million in tobacco settlement proceeds to help pay the escalating costs of the senior prescription drug tax credit.
- Changed state expenditure practices to prevent end-of-year spending by state agencies.
- Maximized federal revenues.

In Fiscal Year 2002 net general revenue collections are now estimated to be \$520.8 million below the \$6.9 billion on which the budget is based. In addition, net general revenue collections are now estimated to be \$36.3 million below those actually received in Fiscal Year 2001, a .6 percent decline. Revenue estimates are jointly agreed to by the budget office, the House, and the Senate.

Since the General Assembly passed the budget May 2001, Governor Holden has taken \$536 million in actions to ensure that the state's Fiscal Year 2002 budget is balanced:

- Core cut \$196.6 million from the budget – the most in Missouri history.
- Withheld \$200.3 million in state agency operating budget spending.
- Withheld \$140.7 million in capital improvements spending, mostly for higher education construction.
- Withheld \$82.5 million in spending from the tobacco settlement and redirected that money to general revenue.
- Redirected \$78.5 million in funds from other state accounts to general revenue.
- Vetoed \$26.5 million from the budget.
- Reduced tax credits by \$7.5 million.

Net General Revenue Estimate (in millions)



*Adjusted for tobacco settlement proceeds used for the prescription drug tax credit.

PRESENTING A FISCAL YEAR 2003 BALANCED BUDGET

The Fiscal Year 2003 budget presents a difficult challenge for the Governor and the General Assembly:

- Fiscal Year 2003 net general revenue collections are projected to increase by \$149.5 million over the projected final Fiscal Year 2002 estimate, a relatively anemic 2.3 percent growth.
- Fiscal Year 2003 net general revenue collections are projected to be \$371.3 million below the amount needed to support the budget approved for Fiscal Year 2002.

Because of this shortfall, the state must cut \$371.3 million from the budget even before it can consider funding any new items or increasing funding for existing programs because of escalating costs.

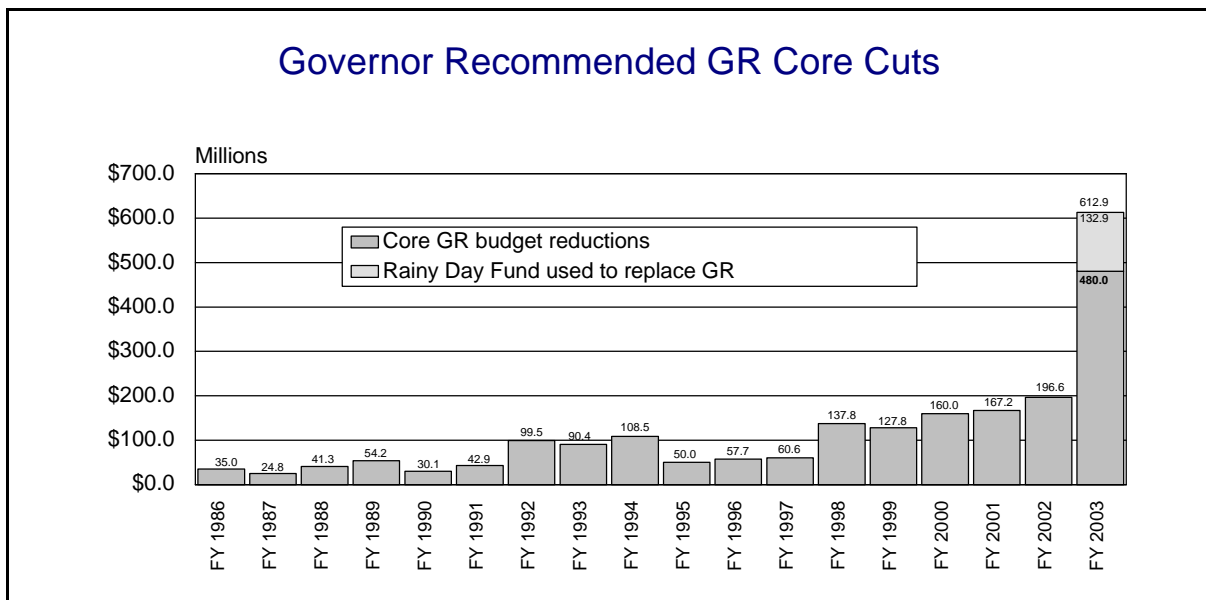
Core Budget Review

As State Treasurer, Bob Holden focused on increasing the state's return on its investment. As Governor, Bob Holden wants Missouri government to be similarly focused on results and accountable to taxpayers. Missouri has been recognized as one of the best-managed states in the nation.

In mid-2001 Governor Holden directed the state budget office to conduct the most thorough review ever done of the state budget, reviewing hundreds of state programs. The Governor demanded that the "core" review be performance based by examining the results that are being achieved by each state program. Governor Holden is committed to reviewing the core budget every year. The state budget office and the Governor's Cabinet Director reviewed all general revenue programs – their purpose, funding, and results.

In addition, the departments of state government were asked to submit "core" reduction plans of 5 percent, 10 percent, and 15 percent with an explanation of the impact of losing this funding.

The result of this "core" review is \$612.9 million in budget cuts, bringing the Governor's two year core cut total to \$809.5 million. The Governor recommends that \$132.9 million of the core reductions be replaced with budget reserve funds on a one-time basis in Fiscal Year 2003. These cuts have made it necessary to reduce the size of the government workforce. The budget includes 688 fewer state positions. The Governor worked to make these reductions in areas that would least impact vital services provided by state government. Departments will be given flexibility to cut as many of these positions as possible through retirements and attrition.



ADDITIONAL MEASURES TO BALANCE THE FISCAL YEAR 2003 BUDGET

In order to maintain vital services, the state will have to take additional measures to balance the Fiscal Year 2003 budget. In addition to \$612.9 million in cuts to existing core agency budgets, Governor Holden proposes the following to meet Missouri's constitutional obligation to balance the budget.

Tapping the State's Rainy Day Fund

At least 44 states have funds to cover budget shortfalls in case of a state disaster or economic downturn. These are commonly called "rainy day" funds (RDF) and serve as state savings accounts to contribute to in good economic times and draw from in difficult budget times. Missouri created its rainy day fund twenty years ago with the Cash Operating Reserve Fund in 1983 to address cash flow problems faced by the state in the early 1980's and ensure the state pays its bills on time. The state created the Budget Stabilization Fund in 1985. It was designed to provide short-term funding when revenue collections are less than anticipated due to an economic downturn. The state was not able to contribute to the fund until 1992.

In November 2000 the voters of Missouri approved creating a Budget Reserve Fund by combining the state's Cash Operating Reserve Fund and the Budget Stabilization Fund. The fund is required to have 7.5 percent of the previous year's net general revenue collections. The fund had a \$458.4 million balance at the beginning of October 2001. Under the state's constitutional provisions, the Governor, with two-thirds approval by the General Assembly can use up to one-half of the fund for "rainy day" purposes.

The Governor recognizes that the RDF only provides one-time revenues for these ongoing services. The state constitution requires that any "rainy day" use be repaid to the fund in payments of one-third over three years. Therefore, the Governor's recommendations would require a \$45 million repayment plus interest to the RDF in Fiscal Years 2004 to 2006. The repayment can take place more quickly at the discretion of the Governor and the General Assembly.

Unfortunately, many of the core cuts that are required to balance the budget put Missouri's most vulnerable citizens at risk. The Governor has identified \$132.9 million in general revenue budget cuts that he believes compassionate Missourians will agree go too far. In addition, \$2.1 million is needed to implement priority health care legislation. The Governor recommends that \$135 million of the state's RDF be used to pay for these services in Fiscal Year 2003. These services cannot be supported by current revenue sources. Though critical to these Missourians who rely on them, they are not services that the state must provide. The Governor's budget recommendations protect these critical services by tapping the RDF.

If use of the RDF is not approved, the services listed at the top of the following page would have to be cut from the state budget in Fiscal Year 2003.

Cost Controls

The Governor's budget includes numerous cost containment measures to curtail escalating Medicaid health care costs. Even with the implementation of these cost containment efforts in the state's Medicaid program, Governor Holden continues his commitment to ensuring that children will receive access to vital health care coverage through the Medicaid program. No child will lose health insurance coverage as a result of these cost control efforts. The Governor's Fiscal Year 2003 budget proposes:

- Increasing the level of disability required for in-home and nursing home service eligibility. By increasing the disability level, Missouri will focus in-home and nursing home services towards those Missourians who most need the care, thus enabling the state to continue long-term funding of Medicaid services. Estimated savings - \$27.1 million.

Budget Reserve Fund Recommendations

Elementary and Secondary Education

Personal Care Assistance	\$4,002,175
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Transportation

Transit funding	7,531,179
Elderly and handicapped transportation	1,349,341
AMTRAK	4,825,000
Port authority assistance	400,488

Mental Health

Alcohol and drug abuse treatment services	15,796,627
Comprehensive psychiatric community services	56,048,544
Community programs for the developmentally disabled	20,450,631

Health and Senior Services

Home and community services program and grants	22,462,164
Lupus (HB 106)	58,987
Expanded newborn screening (HB 279)	868,076
Family care safety registry (SB 48)	106,678
Quality monitoring (HB 316 & SB 326)	275,102

Social Services

Presumptive eligibility	770,080
Expanded newborn hearing screening (HB 401)	54,928

Total	\$135,000,000
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- Containing pharmacy costs, including a plan to prior authorize all new drugs coming onto the market. Prior authorizing all new drugs purchased through the Medicaid program will ensure that new drugs have actual health benefits for Medicaid recipients in the state. In addition, Medicaid will cease reimbursement for over-the-counter drugs, allowing Medicaid to more closely mirror the health care benefits enjoyed by most Missourians. Estimated savings for pharmacy cost containment proposals - \$50.4 million.
- Instituting policy changes in the Medicaid Spend-down Program. Spend-down allows eligible Missouri residents to spend-down their income in order to qualify for Medicaid benefits. Currently, the program allows participants to incur, not pay, expenses in order to qualify for the spend-down program. By instituting a policy change that requires recipients to actually pay these costs, the state will be able to provide this needed service to eligible recipients. Estimated savings - \$20.6 million.
- Modifying or eliminating optional Medicaid services for adults. Although Missouri has elected to cover dental and optical services for adults in the Medicaid system in the past, in order to ensure the solvency of the Medicaid system, it has become necessary to end coverage provided for these optional Medicaid services. Estimated savings - \$16 million.

Using Tobacco Settlement Proceeds

In 1998, the National Association of Attorneys General announced a national settlement agreement with five major tobacco companies. Missouri was part of this settlement. In May 2001, Missouri received its first payment of the Tobacco Settlement proceeds. It is estimated that the state will receive about \$164 million

during Fiscal Year 2003. Because of the state's current revenue situation, it is not prudent to begin dozens of new programs when existing programs are being cut. The Governor recommends using a portion of the tobacco proceeds to pay for core health programs while retaining a portion for the most critical investments that will improve the lives of Missourians in the future. The Governor proposes using \$120.3 million to fund life sciences, tobacco prevention efforts, and the prescription drug program for senior citizens. The remainder will be used to prevent additional cuts in core health care programs that provide a safety net for Missouri's most vulnerable citizens.

Securitizing Tobacco Settlement Proceeds

A number of states have sold their tobacco settlement proceeds in a process called "securitization." Tobacco securitizations are similar to revenue bond borrowing. New York City issued the first tobacco revenue bonds in November 1999. In Missouri, the Board of Public Buildings would sell bonds secured by the rights to the future stream of tobacco settlement payments. The state would then receive a large one-time payment that could be used for any purpose approved by the Governor and the General Assembly.

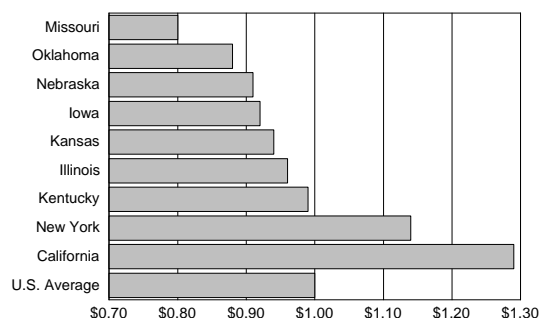
The Governor supports legislation that would allow the state to securitize Missouri's tobacco settlement proceeds. Having used a large portion of the "Rainy Day" Fund, it is appropriate to give the state another mechanism to raise one-time revenues that could be used for one-time purposes. In the current national economic crisis, several states have securitized large amounts of tobacco settlement proceeds and have funded ongoing, multi-year appropriations. States that have adopted this short-term practice have seen their bond ratings downgraded thus creating higher costs for any borrowing which is not acceptable for Missouri because it is one of only nine states with a triple-A bond rating from each of the three major bond-rating firms.

Missouri — A Low-Tax State

In addition to being ranked one of the top managed states, Missouri continues to be a low tax state; Missouri was recently ranked one of the lowest cost states to live in the nation. It is a "good deal" to live in Missouri and taxpayers get a "good deal" from their state government. Missourians are fortunate they can do more with less. Among all states Missouri ranks 47th in State Government Expenditures Per Capita. By any objective measure, Missouri is a low-tax state as the table on the following page demonstrates.

For each dollar an average U.S. citizen pays in state taxes, the average Missouri citizen pays only 80 cents. Missouri state taxes are 20 percent below the U.S. average and among the lowest in the region.

State Averages of Tax Revenue Per Capita



**Recent Rankings on Missouri Revenues and Expenditures
(as compared with all 50 states)**

<u>Indicator</u>	<u>Source</u>	<u>Date Issued</u>	<u>Rank</u>
State Revenues			
State Government Own Source Revenue (Per Capita)	Morgan Quitno	2001	42
General Revenue - State and Local (% of Personal Income)	Governing Magazine	2001	46
General Revenue - State and Local (Per Capita)	Governing Magazine	2001	45
Total Revenue - State and Local (% of Personal Income)	Governing Magazine	2001	47
Total Revenue - State and Local (Per Capita)	Governing Magazine	2001	48
State Revenues (Per Capita)	U.S. Census Bureau	2001	39
Corporate Income Tax - State (Per Capita)	U.S. Census Bureau	2001	44*
Total Taxes (Per Capita)	U.S. Census Bureau	2001	44
State Expenditures			
State Government Expenditures (Per Capita)	Morgan Quitno	2001	47
General Spending - State and Local (% of Personal Income)	Governing Magazine	2001	46
General Spending - State and Local (Per Capita)	Governing Magazine	2001	48
Total Spending - State and Local (% of Personal Income)	Governing Magazine	2001	47
Total Spending - State and Local (Per Capita)	Governing Magazine	2001	49
State Expenditures (Per Capita)	U.S. Census Bureau	2001	44

*Six states do not levy a corporate income tax.

MANAGING FOR RESULTS STRIVING FOR A BETTER, SMALLER GOVERNMENT

In recent years, Missouri has greatly expanded its efforts to achieve results through better government. *Governing Magazine* recognized this progress, ranking Missouri as having one of the five best Managing for Results efforts in the nation. Governor Holden sees the current fiscal environment as both a challenge and an opportunity to manage state government even better.

Managing for results requires a long-term commitment to doing business more efficiently and effectively - keeping government focused on results and driving meaningful improvements for Missouri citizens. The Managing for Results effort encourages fact-based decision-making and innovation and recognizes the need for agencies to work together to drive significant improvements.

Managing for Results will lead to:

- Better performance on high priority results.
- Increased accountability for Missouri citizens.
- Improved agency performance.
- Cost savings.
- Seamless customer service.
- Expanded public involvement.

Better Performance and Increased Accountability

As part of his Managing for Results Initiative, Governor Holden has identified a set of priority results that measure the well-being of the people who live and work in the state. The Governor is committed to measuring and driving improvement in these priority areas and then communicating those results on a regular basis. In this way, state government will truly be accountable to Missouri citizens.

Results will be developed and measured around the Governor's priorities of:

- Children born healthy and entering school ready to learn.
- Children succeeding in school.
- Families achieving financial security.
- Citizens living in a safe, secure Missouri.
- Missourians enjoying a long, healthy life.

These priority results will also guide the Governor's budgetary and legislative decisions, ensuring that the state's limited resources are focused on the most vital programs and services.

Improving Agency Performance

Another critical component of the Managing for Results Initiative is improving state agency performance. Immediately upon taking office, Governor Holden brought together a team to help guide and support these performance improvement efforts. Department managers and employees working with the group's assistance have generated millions of dollars of improvement in their first year of operation. The Department of Transportation will save over \$100 million in administrative costs over the next five years. The Division of Child Support Enforcement, in the Department of Social Services, has identified and distributed millions of dollars in child support payments to the rightful owners. Significant results have also been achieved in the areas of administrative services, environmental permits, business support, child protective services, tax processing, motor vehicle registration, and drivers licensing.

Flexibility and Accountability

While promoting accountability for achieving results, policymakers must also work to accomplish these results most effectively. Agencies need to be able to take advantage of improved procedures and efficiencies as quickly as possible to help reduce the cost of government. So, Governor Holden will ask the legislature to permit additional flexibility across narrow program and budget categories. Such flexibility, already granted to the Missouri Department of Revenue, helped lead to that agency's receipt of the Missouri Quality Award, the only department of state government ever recognized with this honor.

Although Missouri has been nationally recognized for systematic reviews of programs, the current budget challenge requires even closer scrutiny of existing programs. To ensure this, Governor Holden encourages the General Assembly to consider enacting a Missouri sunset law affecting all new or existing programs.

Achieving Results and Seamless Customer Service

Governor Holden knows that Missouri state government can continue to improve: it can be smarter and more efficient. The Governor is committed to holding state government agencies accountable to a higher standard of performance and quality. His business-like approach to managing state government focuses on setting priorities, measuring success, making better decisions, and communicating results. In order for state government to be truly accountable, results must be reported to the public in more visible and accessible ways. More information can be found about Governor Holden's Managing for Results Initiative on the Internet at www.mri.state.mo.us.

Citizen contact with state employees, products, and services shapes the public perception of state government. All too often, these contacts require multiple visits to offices of different agencies, each with long lines, new requirements, and paper applications that can lead to a slow flow of inaccurate or incomplete information. Government needs to keep up with leaders in the public and private sector in simplifying its organizations and processes to reduce the hassle of citizen contact with

government. Simpler and more efficient services can also mean better results at a lower cost.

Several impediments exist to providing this hassle-free service. Through its history the state has established many programs in different agencies to achieve similar purposes. Some of these programs duplicate others and some require services in multiple agencies for success. All tend to confuse Missouri citizens. These same citizens do not care who runs the program, where it's located, or how to apply; they just want results without hassles.

The New Shape of Public Service: Structuring for Success

Restructuring alone will not improve performance or reduce costs. However, when re-engineered based on customer needs and desired results, improved service delivery can help achieve "more for less" — better results at a lower cost.

Over the past year interested parties from Missouri's public, private, charitable, and academic sectors have evaluated the way the state uses public resources to achieve its most important results. For citizens at key points in their lives — whether new parents, young students, unemployed workers, or disabled persons — these teams identified overlapping and confusing program structures as key barriers to success.

With funding so limited, Missouri cannot afford to pay twice for the same services or to pay for services that, because of lack of coordination, do not achieve desired results. It is time to expand the comprehensive review of state government and look at the integration of departmental operations to improve the way services are delivered to Missouri taxpayers. Governor Holden has urged state employees to transform the budget challenge into an opportunity for changing state government for the better. His administration will continue to explore additional areas to streamline the way the state conducts business, including those areas listed below.

Governor Holden will:

- Appoint a task force involving departments of state government and private citizens to redesign service delivery systems.
- Direct the completion of a restructuring proposal.
- Seek legislative support for more accountability for results and flexibility in operations across program and agency lines.

Early Childhood Care, Education and Development

Study after study has indicated the importance of early childhood programs in preparing young children to be ready to learn when entering kindergarten. Missouri became the first state in the nation to report on the state's success in achieving this goal. However, as with other areas listed below, an array of programs among various agencies limits the effectiveness of these programs. The Governor has called for a review of the state's many early childhood programs.

Workforce Development

In recent years, progress has been made in focusing on customers of multiple agencies. One-stop job training service centers were established around Missouri to improve access to the whole menu of programs available to people trying to move off welfare and out of poverty, or those laid off from their jobs. All too often, however, citizens receiving services still must travel from office to office to get the full range of services they need to accomplish their goals. To eliminate the hassles and inefficiency involved in this system, Governor Holden has called upon the Director of the Department of Economic Development and the Missouri Training and Employment Council to work with other agencies to further streamline the state's workforce development system.

Motor Carrier Services

Growth in the trucking industry in Missouri has provided thousands of new jobs over the past few years. This growth has added to the economy of Missouri but also has raised concerns about safety on our highways.

Currently, truck companies seeking registrations have to contact up to four different offices. Passenger cars frequently encounter big rigs driving across the state to visit these offices in person. In order to ease the cost of compliance and improve safety, Governor Holden will be recommending the restructuring of four agencies providing registration services into a single department. By sharing administrative services and facilities, consolidation will save money. By providing one-stop registration and electronic options, a consolidation will save customers' time. In addition, cutting staffing and red tape in routine registration will allow greater attention to safety.

Personal Independence Services

One of the fastest-growing components of state government involves services to those Missourians of all ages who are living with a physical or mental disability. A team of affected agencies will plan and implement improvements to forge a system that simplifies customer access, achieves better results, and reduces administrative costs.

Increasing Employee Involvement

Another critical component of Governor Holden's Managing for Results Initiative is to expand involvement in the state's improvement initiatives. Some of the best ideas about getting better results, lowering costs, and improving customer satisfaction in the private sector come from the employees who know these products and services best. In an effort to replicate quality programs from the public and private sectors that obtain this input, Missouri government will establish a website for posting suggestions in these areas. Based on a model at the Missouri Department of Revenue, the IDEA (Improvements Designed to Enhance Achievement) Program will provide senior managers with a regular opportunity to review suggestions from employees.

Volunteerism and Youth Development

With few financial resources, Missouri will depend more and more on volunteers to help achieve our most important goals. Especially since September 11, citizens have been looking for ways to help their neighbors and their communities. For young people in

particular, research has shown the value of their attachment to school and community in enhancing academic success while avoiding some of the physical and emotional risks they face.

Governor Holden will work with groups across Missouri, such as the Community Services Commission, chaired by Lt. Governor Joe Maxwell, to lead an effort to energize the community spirit of Missouri, and young people in particular, to help achieve Missouri's highest goals. The National Governors Association and not-for-profit organizations throughout Missouri have agreed to help in the Volunteerism and Youth Development Initiative.

As part of this effort, Governor Holden will appoint a Youth Cabinet of young Missourians to work with organizations serving youth across Missouri to better target their resources, public and private, on the needs of children preparing to enter adulthood. This effort will focus on improving student academic performance and avoiding the pitfalls of youth, such as teen pregnancy and drug and alcohol abuse.

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